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SUBJECT: SEACOM ONLY UNDERSEA FIBER-OPTIC CABLE PROJECT SLATED TO BE
ONLINE IN ADVANCE OF 2010 FIFA WORLD CUP

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This cable contains company proprietary information.

11. (SBU) Summary. SEACOM representatives called on Ambassador Bost on June 4 to discuss SEACOM's undersea cable project. SEACOM (developed by U.S. group Herakles Telecom) is based in Mauritius with 75 percent African ownership and 25 percent U.S. ownership. The project will provide the first true broadband connectivity for countries on Africa's Eastern seaboard, which are presently 100-percent reliant on expensive satellite and fiber-optic cable solutions. Although several other undersea cable projects for the East and West Coasts of Africa are currently under consideration, SEACOM is the only one expected to be ready in time to meet FIFA requirements for the 2010 World Cup (with a delivery date of June 2009). However, at the highest level of the SAG there is still a lack of understanding regarding SEACOM's ability to deliver adequate bandwidth to meet FIFA requirements. SEACOM seeks U.S. mission support in increasing awareness among SAG policy makers and business clients. SEACOM's sister company, Sithe Global (a Blackstone Group subsidiary), is also interested in the South African energy sector, but is frustrated by the lengthy process for project uptake. SEACOM continues to face many challenges due to entrenched political interests and preferential treatment of state-owned or backed projects. End Summary.

Genesis of SEACOM

12. (U) SEACOM President Brian Herlihy, Government Relations Vice President Haskell Ward, and Telecom Specialist John Mathwasa provided an overview of the SEACOM undersea cable project to Ambassador Bost on June 4. SEACOM is part of a group of companies owned by New York City-based, private-equity group Blackstone. Sithe Global, an independent power company, is the largest company owned by Blackstone. The group has been pursuing an undersea cable project to increase bandwidth capacity in Africa for several years. SEACOM President Brian Herlihy noted that the group initially pursued the project through Sithe Global, one of its sister companies. USTDA supported the project through an Orientation Visit in 2006 for East African Telecommunications Ministers where they met with Sithe Global and interest in an East African cable project was generated. However, due to the political environment in South Africa and the calls for majority local ownership, Blackstone

decided to create an African-based infrastructure company (SEACOM) for the project instead.

13. (U) SEACOM is based in Mauritius with 75 percent African ownership and 25 percent U.S. ownership. Herakles Telecom, a New York City-based international development group, owns this 25 percent stake. (Note: The group initially had European partnership agreements for an additional 25 percent, which were dropped when the South African Minister of Communications publicly demanded 51 percent local ownership.) The African ownership is now split between East and Southern African investors: South Africa private equity Venfin, 25 percent; South Africa private equity Shanduka (Cyril Ramaphosa), 12.5 percent; South Africa private equity Q(Cyril Ramaphosa), 12.5 percent; South Africa private equity Convergence Partners (Andile Ngcaba), 12.5 percent; and East Africa group IPS (owned by Aga Khan), 25 percent).

SEACOM to Provide Much Needed Bandwidth and Competition

14. (U) The project will provide the first access to true broadband connectivity for countries on Africa's Eastern seaboard, which are presently 100 percent reliant on expensive satellite and fiber-optic cable solutions. Once functional, SEACOM will provide high-capacity, fiber-optic bandwidth along the East Coast of Africa through South Africa, Mozambique, Madagascar, Tanzania, Kenya, Djibouti, and Egypt and onwards to the rest of the world via landing points in Marseille, France and Mumbai, India. According to SEACOM, the aim is to create a high-demand, low-cost model for bandwidth. Africa is currently the least covered continent in terms of internet content, and SEACOM representatives believe that increased bandwidth capacity offered by their product will spur increased demand for content.

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15. (U) SEACOM will land in South Africa and connect with the India-based, second-national-operator Neotel's land operations providing much-needed competition to dominant, partially state-owned Telkom. In South Africa, Telkom has tightly controlled supply on the existing fiber-optic system along Africa's west coast. SEACOM is gambling that demand for bandwidth will increase once prices decrease drastically. SEACOM's relationship with Neotel (and all landing parties in Africa) is based on "open access", market-based co-location, meaning that any customer can co-locate at no cost. In contrast, existing systems operate on a "club approach", meaning access is granted at cost only to participating governments in the countries that have a landing station and to a select group of companies. Other African projects have been struggling for years to develop an "open access" model like the one SEACOM is pursuing. The SEACOM price structure will be significantly lower (about one-tenth of current costs) than current satellite or fiber-optic pricing in Africa.

16. (U) SEACOM will have the capacity to enable high-definition television, internet protocol television, peer-to-peer networks, and surging Internet demand. SEACOM has already released its pricing structure, and South African mobile-operators MTN and Vodacom have indicated a desire to purchase bandwidth from SEACOM because of its early availability, even though they would prefer to have their own fiber-optic cables.

SEACOM First to be Online for World Cup

17. (U) Several other undersea cable projects for the East and West Coasts of Africa are currently under consideration, but SEACOM is the only one to have started construction. Additionally, the other African projects would need to get in line to secure construction partners/contracts as demand is on the rise around the world for new undersea cable projects. According to Herlihy, SEACOM is already first-in-line for construction with Tyco Telecommunications and

predicted that it would be first-to-market by at least a year.
(Note: U.S.-based Tyco Telecommunications manufactures all of the major sub-systems required for undersea system construction from cable and repeaters to dry plant, power feed equipment and network management and marine installation.)

¶8. (U) SEACOM is expected to be fully operational by June 17, 2009, well in advance of the FIFA 2010 World Cup. Herlihy added that it most likely will be the only new undersea cable project to be operational in time to meet the FIFA high-definition broadcasting requirements.

South African Government Misinformed

¶9. (U) Herlihy expressed concern that at the highest level of the SAG there is still a lack of understanding regarding the availability of adequate bandwidth to meet FIFA requirements. State-owned infrastructure company Infraco has been stating that there will be no broadband solution available in time for the 2010 World Cup. Herlihy noted that there has been a lot of QWorld Cup. Herlihy noted that there has been a lot of misinformation in the media on which projects will be available in time for 2010. He added that SAG officials do not recognize that other undersea cable projects currently on the drawing board will not be ready in time unless they are approved in the next few days and construction begins shortly thereafter. This is because there is only limited global capacity to lay fiber-optic cable. Failure to secure cable-laying contracts in the next week means the signing of such contracts will not be available in the foreseeable future.

¶10. (U) Minister of Communications Ivy Matsepe-Casaburri said, in her budget speech on June 3, that the SAG has approved the building of the African West Coast Cable undersea cable project (which is led by state-owned broadband company Infraco) and gave support to NEPAD's East Coast Uhuru Net project (which is led by Baharicom and would install undersea cable around the entire African continent to

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connect it to Brazil, Europe, the Middle East and India). She announced that both undersea cables should be ready by May 2010. (Note: The FIFA World Cup begins on June 2010.) This date is in question as the industry for cable supply is very tight.

¶11. (U) Matsepe-Casaburri noted in her speech that infrastructure provision for 2010 will involve an upgrade to Telkom's core network to meet FIFA requirements and Telkom will implement the access network from its exchanges into the stadiums. Herlihy stated that Telkom is hinting at partnership with SEACOM to provide the upgrade solutions to meet the FIFA requirements. Telkom wants its brand to be a part of the 2010 solution and is recognizing the need to partner with SEACOM. SEACOM representatives noted that there is not much additional capacity left on Telkom's Sat-3 system. SEACOM will connect with Neotel's land operations, but Neotel will not have monopoly access to SEACOM's bandwidth, and opportunities exist for Telkom and others to purchase directly from SEACOM.

Marketing and Advocacy Assistance

¶12. (U) SEACOM representatives sought U.S. Embassy assistance in dispelling misinformation regarding undersea cable project timelines and capacities. Herlihy stated that SEACOM has focused thus far on project management and finance and conceded that the company's marketing needed to improve. For example, SEACOM will provide 10 gigabits of bandwidth to South African universities at a minimal administrative fee (at two percent of Telkom's current charges). Currently, all of South Africa has a total bandwidth capacity of 17 gigabits. However, this initiative has not received much press attention outside of technical journals. Ambassador Bost suggested targeting radio audiences to educate consumers and noted that South Africa was a good starting point to reach audiences throughout southern Africa.

¶13. (U) SEACOM representatives said they could benefit from Embassy efforts to better inform South African policy-makers about the availability of bandwidth for 2010. For example, they would like to promote the SEACOM university bandwidth initiative with the Department of Education. The U.S. Embassy offered to organize a media/business lunch in Johannesburg with the press and potential customers and a dinner in Pretoria with government decision-makers during Herlihy's next visit to South Africa during the month of July.

¶14. (U) Ward added that while SEACOM is focused on just the undersea cable infrastructure, there is a huge potential for U.S. content providers to become involved once the cable lands in South Africa. SEACOM representatives also noted that USTDA-supported feasibility studies could benefit both U.S. businesses and the African continent. They advocated for studies exploring opportunities for U.S. companies to assist with the installation and maintenance of the land-based cable infrastructure into the interiors of the African nations participating in SEACOM. SEACOM would like the U.S. Embassy to promote these types of partnership opportunities. SEACOM QEmbassy to promote these types of partnership opportunities. SEACOM also offered to provide low-cost bandwidth solutions for USAID-supported projects.

Group Also Interested in Energy Sector

¶15. (SBU) Herlihy stated that Blackstone is also interested in investing in energy projects via its energy arm Sithe Global, but it is frustrated by the long wait time involved with getting projects up and running in South Africa. He noted that the Blackstone Group is uniquely positioned to provide quick delivery of solutions to address the current power shortage, but it seemed that state-owned utility provider Eskom was "frozen" in its decision-making ability. Herlihy also underscored the exchange-rate risk of the Rand-based purchase agreements that the SAG would like to pursue.

¶16. (SBU) Ambassador Bost commented that the government was not as desperate as it needed to be to address the power shortage. The SAG's inability to make decisions regarding energy projects frustrates potential investors, especially given the high global

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demand for energy projects. Herlihy agreed that the SAG mindset is that it has a budget surplus, so it can build whatever it wants without taking into account global market conditions and the scarcity of suppliers.

¶17. (U) Comment. SEACOM's potential impact on South African economic development and university education is great. The SEACOM undersea fiber-optic cable project will revolutionize the ICT sector in the participating African nations. The increased bandwidth provided by the project will not only reduce ICT costs drastically, but should improve access and drive innovations in content quality. The project will also introduce U.S. ICT standards in Africa. Finally, SEACOM's offer to provide subsidized access for universities and USAID-funded projects should positively impact the development issues the SAG is grappling with, such as skills development. End Comment.

BOST